

Peripheral Europe Update

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- **Portugal risks a clash with European Commission**
- **Greece close to a deal with the Eurogroup**

Main market events

The market sentiment was more or less neutral, still peripheral bond spreads increased further. Issuances of new long-term bonds did put pressure on peripheral spreads. Italian bonds have returned 1.00% this year, Portuguese bonds -2.49%, Spanish bonds 1.92% and Irish bonds 2.12%.

Portugal

During the first quarter of 2016 the unemployment rate increased to 12.4% from 12.2% in the last quarter of 2015. Also the economic growth disappointed during the first quarter (0.1%), where a growth of 0.4% was expected. The weaker data shows the downside risk of the forecasted economic growth of 1.8% by the government. At the end of May the European Commission will decide if Portugal will be fined for their excessive deficit. A recent statement from the Left Bloc, to reject increases of the VAT and income tax, show the fragility of the minority government.

Greece

The Eurogroup and Greece are coming closer to an agreement. The deal would include further cuts in pensions. It's expected that the deal will be finalized during the next Eurogroup meeting at May 24. If an agreement is signed, Greece will receive the next bailout tranche. In addition, Greek government bonds may become eligible for the ECB bond buying program.

Spain

The most recent polls show that the combination of Podemos and United Left is indeed advancing in the number of votes. The combination is currently second largest in number of votes. The combination Podemos/UL would get 24.7% of votes, compared to 22.1% in April. The Spanish Treasury issued this week a 50 year bond at a yield 3.45%. The deal statistics show that there was significant demand for the bond.

Robeco Euro Government Bonds

We continue to see the ECB's QE program as supportive for peripheral debt, but political risks are rising in the peripheral countries and growth is no longer improving. As consensus positioning is overweight in the periphery we have become more cautious with respect to the periphery.

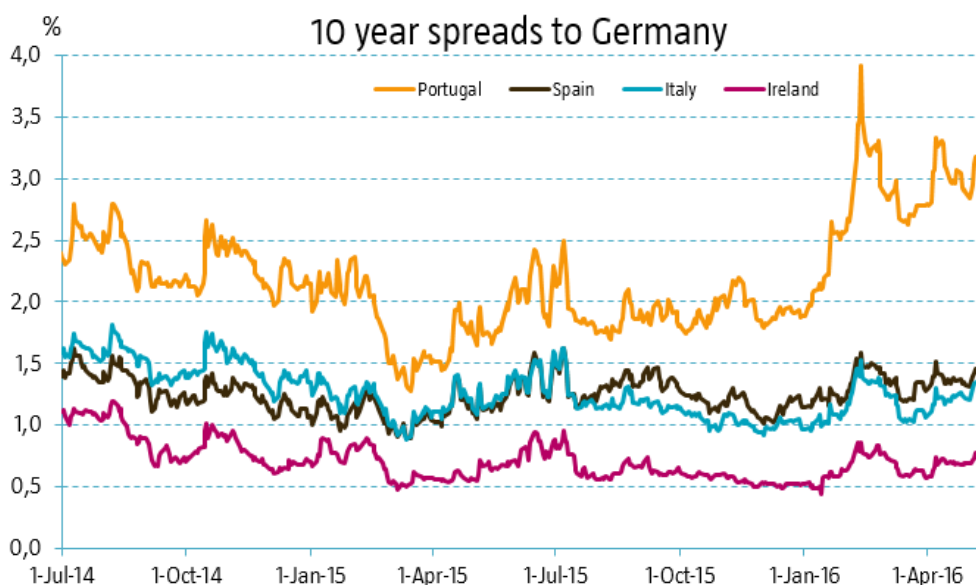
We continue to have an underweight position in both Spain and Italy given the evolving political risks and since the current spread level makes the periphery vulnerable. We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. We have an underweight position in 10 year Italy and Spain. Peripheral bonds make up 16% of the fund. Year-to-date the fund's absolute return is 2.98%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD May 12, 2016.
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Current spreads and the movement over time

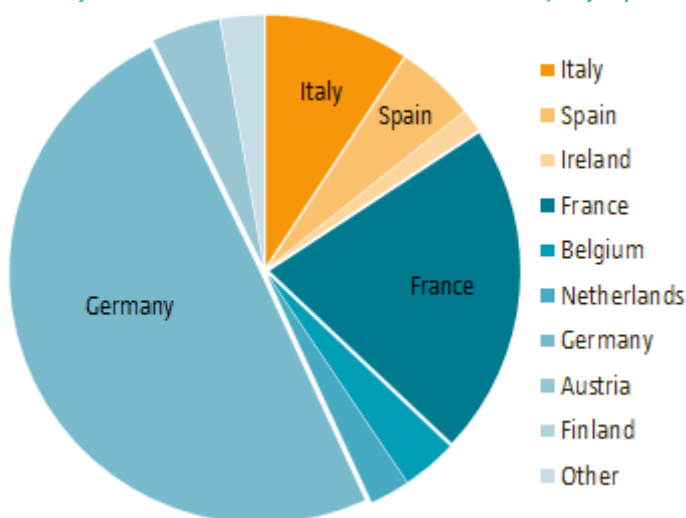
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0,51	0,03									
2	-0,51	0,08	0,45	0,45	0,02	0,03	0,04		0,15	0,04	1,15
3	-0,53	0,14	0,54	0,55	0,06	0,07	0,12	8,5	0,23	0,10	1,67
4	-0,47	0,18	0,62	0,84	0,02	0,08	0,09		0,32	0,18	2,09
5	-0,38	0,21	0,75	0,97	-0,01	0,07	0,03		0,35	0,15	2,32
6	-0,33	0,23	1,04	0,98	0,16	0,13	0,17		0,50	0,25	2,02
7	-0,24	0,26	1,17	1,15	0,18	0,16	0,14		0,59	0,23	2,66
8	-0,14	0,31	1,33	1,44	0,23	0,35	0,15				0,27
9	0,00	0,34	1,34	1,45	0,23	0,39	0,17		0,73	0,25	3,00
10	0,14	0,35	1,36	1,49	0,22	0,40	0,21	7,32	0,69	0,28	3,05
15	0,30	0,66	1,64	1,77		0,71	0,14	7,38	0,95	0,51	3,32
20	0,56	0,69	1,71			0,57	0,51	7,07			
30	0,85	0,61	1,83	2,01	0,14	0,75	0,49			0,17	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (May 12, 2016)



Source: Robeco

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